

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

RESIT/SPECIAL EXAMINATION

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 230/231/AGBM 312/BBAM 230: BUSINESS FINANCE

STREAMS: BCOM

TIME: 2 HOURS

DAY/DATE: THURSDAY 26/07/2018

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS:

- Answer question ONE and any other TWO questions.

QUESTION ONE

1. A firm is considering investing in a project with the following profits before depreciation and tax.

Year	1	2	3	4
Profits	10000	5000	8000	15000

The initial cost of the project is Sh 15000 and the scrap value is Sh 3000. The tax rate is 30% and depreciation is on straight line basis.

Required:

- Calculate the accounting rate of return
 - Net present value if the opportunity cost of capital is 10%
 - Profitability Index
 - Internal Rate of return (12 marks)
2. Describe the main functions of a finance manager. (8 marks)

3. An investor want to find out how much he will collect in his bank account after paying Sh 7000 at the end of each year for 6 years. Assume an 8% interest rate. (4 marks)
4. Describe the non-financial goals of firm. (6 marks)

QUESTION TWO

- (a) A company has 35,000 ordinary shares in its capital structure with a par value of Sh. 50. The company expects to pay a dividend of Sh 8 per share which is expected to grow at 10%. The current market price of the ordinary share is Sh. 60 and incurs a flotation cost of 12% of the market price. Calculate the cost of ordinary shares. (4 marks)
- (b) Describe the following sources of finance
 Debentures
 Retained profits
 Bank overdraft (6 marks)
- (c) A firm has the following expects to receive the following cashflows from year 1 to 5

Year	1	2	3	4	5
Cashflow	20000	30000	70000	80000	100000

If the cost of the investment is Sh 120000. Determine the payback period. (2 marks)

- (d) The following information has been extracted from the published accounts of Pesa Corporation Limited, a company quoted in the Nairobi Securities Exchange.

Net Profit after tax and Interest	800000
Less Dividends	<u>650000</u>
Retained profits	<u>150000</u>
Ordinary share Capital (Sh. 40 per value)	Sh 8, 000, 000
Market Price per share now is Sh 50	

Required

- (i) Earnings per share (2 marks)
 (ii) Price Earning Ratio (2 marks)
 (iii) Dividend yield (2 marks)
 (iv) Dividends per share (2 marks)

QUESTION THREE

1. The following is the capital structure of XYZ Limited as at 31st December 2016

	Shs '000'
Ordinary Share Capital (shs 15 par)	4000
Retained Earnings	2200
10% Preference Share Capital (Shs 20 par)	800
12% Debenture (Shs 150 par)	<u>2000</u>
	<u>9000</u>

Additional information

- (i) Corporate tax rate is 30%
- (ii) Preference shares issued 15 years ago and are still selling at par value.
- (iii) The debenture has a 20 year maturity period. It is currently selling at sh. 100 in the market.
- (iv) Currently the firm pays dividends of Shs. 4 per share and the dividend per share is expected to grow at 5% in the future. The market price per share is shs. 30

Required

- (i) The cost of various components of capital. (8 marks)
- (ii) The weighted Average Cost of Capital. (4 marks)
- (iii) Discuss the reasons for conflict between shareholders and auditors. (4 marks)
- (iv) Discuss the solutions to conflict between auditors and shareholders. (4 marks)

QUESTION FOUR

1. A company is holding a 8 year 15% Sh 18000 debenture currently selling for Sh. 15000.

- (i) Determine the intrinsic value of the debenture if the cost of capital is 14%. Basing on this calculation should the company purchase this debenture? (4 marks)
- (ii) Calculate the yield to maturity if the debenture. If the tax rate is 30%. (4 marks)
- (iii) Advice management whether to buy or sell the debenture. (2 marks)

2. Describe the features of a good investment appraisal technique. (5 marks)

3. The following is the dividend pattern for a firm

Year	2000	2001	2002	2003	2004	2005
DPS	5	5.5	6	6.4	7	7.5

The firm has an opportunity cost of capital of 12%. Required

- (i) Growth rate of the firm and compute the
- (ii) Price of the share

(5 marks)
